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China Ecotourism Group Limited
中國生態旅遊集團有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 1371)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO 2021 ANNUAL REPORT

Reference is made to the annual report of China Ecotourism Group Limited (the “Company”, together with its subsidiaries, the “Group”) for the year ended 31 December 2021 (the “Year 2021”) dated 30 June 2022 (the “2021 Annual Report”). Unless otherwise defined, terms used herein shall bear the same meanings as defined in the 2021 Annual Report.

The Board wishes to provide additional information in relation to the auditor’s qualified opinion contained in the 2021 Annual Report on certain loan transactions and the valuation of an unlisted equity investment of the Company.

SUPPLEMENTAL INFORMATION

1. Qualified opinion on loan receivables

In the Independent Auditor’s Report, the Auditor expressed qualified opinion on loan receivables as disclosed in Notes 27(a), 27(b) and 27(c) to the consolidated financial statements of the Company for the Year 2021. The Auditor was unable to obtain sufficient appropriate audit evidence to evaluate (i) the business rationale and commercial substance of the loan transactions disclosed; and (ii) the reasonableness of the assumptions adopted by the directors of the Company in estimating the timing of loss allowances made in the years ended 31 December 2021 and 2020. The Auditor was also unable to obtain all necessary corroborative evidence from certain borrowers to substantiate the nature and authenticity of the loan transactions and the related outstanding balances, and to assess their recoverability.

The management’s position and assessment on the audit modifications in relation to the loan receivables

The Company considered that it has made its best endeavours to provide all the available information and documents for the audit purpose. Nevertheless, the Company was unable to provide all the information and documents requested by the Auditor. In order to address the issues, the Company has formulated a plan to remove the audit modifications and will work closely with its Auditor on this matter.

The Company made a full provision for impairment on Loans 1-9 disclosed in Note 27(a) to the consolidated financial statements of the Company for the Year 2021, after considering that the unfavorable PRC government policies on the lottery business, unlikelihood of materializing the corresponding business opportunity and loss of contact of certain borrowers, implying remote recoverability for Loans 1-9. Moreover, the Company has provided the Auditor with the approximate timing when the Company lost contact with the borrowers. Without third party evidence/other supporting documents, the Auditor was unable to verify such timing of loss of contact with those borrowers to assess the timing of the loss allowance made in the years ended 31 December 2021 and 2020.

Regarding the loan to Bright Kinsmart Investment Limited (the “Bright Kinsmart”) as disclosed in Note 27(b) to the consolidated financial statements of the Company for the Year 2021, no loss allowance was provided on the loan receivable from Bright Kinsmart because the loan was not due as at 31 December 2021 and no specific event or indicator was brought to the attention the Company that the borrower would not be able or not intend to repay the outstanding loan balance. In particular, the Company was in contact with the borrower who committed to repay the loan when the loan is due. The loan receivable from Bright Kinsmart has been fully repaid subsequent to 2021 Annual Report dated 30 June 2022.

As to the loan to National Sport Lottery Co., Ltd (the “National Sport Lottery”) as disclosed in Note 27(c) to the consolidated financial statements of the Company for the Year 2021, the loan was made for the purpose of development of the sport lottery business in Cambodia. Due to the impact of the Covid-19 outbreak, the lottery business in Cambodia had been seriously affected since 2020. Also, despite the Company’s repeated requests for repayment, no positive response had been received from the borrower. As a result, the Group decided to make an impairment of HK\$3,510,000 and HK\$1,560,000 for the loan receivable from National Sport Lottery in years ended 31 December 2021 and 2020. The Auditor requested for an independent valuation to support the basis for the impairment assessment. However, the Company did not perform further quantitative impairment assessment or valuation after considering the costs of doing so and the financial impact of such impairment to the consolidated financial statements as at 31 December 2021 and 2020.

The audit committee’s view towards the audit modifications in relation to the loan receivables

On 30 June 2022, the audit committee of the Company had a meeting, at which the auditor’s report was presented to the members of the audit committee by the Auditor. The audit committee reviewed the audit modifications and understood that the Auditor was unable to obtain all the requested audit evidence in relation to the audit work. The audit committee also reviewed and understood the position of the management and they advised that the Company should come up with a plan to remove the audit modifications in the next auditor’s report. In this regard, the audit committee agreed with the view of the management’s position described above.

The Company’s action plan in addressing the audit modification

In order to address the audit modifications in relation to the loan receivables, the Company will, subject to the comments of its’ auditor, take the following steps:

- (1) Engage lawyer to provide legal advice and assess the feasibility of taking further legal actions in order to recover the outstanding loan receivables; and

- (2) Depending on the result of (1) above, try to identify potential acquirer of the outstanding loan receivables and recover as much as possible from the disposal of such loan receivables.

If the above action plan can be implemented and the loan receivables are disposed before the upcoming financial year end, the audit modifications in relation to the loan receivables will be removed.

2. Qualified opinion on the valuation of an unlisted equity investment

In the Independent Auditor's Report, the Auditor expressed qualified opinion on the valuation of an unlisted equity investment as disclosed in Notes 27(d) to the consolidated financial statements of the Company for the Year 2021. The directors of the Company were unable to provide the Auditor with sufficient appropriate audit evidence they considered necessary to assess the directors' valuation of the investment in Hunan Pu Qin Lao Ling Development Limited (the "Hunan Pu Qin") as at 31 December 2021 and 2020.

The management's position and assessment on the audit modifications in relation to the valuation of the investment in Hunan Pu Qin

In assessing the fair value of the unlisted equity investment in Hunan Pu Qin, the Company made reference to a recent share transaction of Hunan Pu Qing.

In order to perform further independent assessment on the valuation, the Auditor requested for the latest management accounts and independent valuation of Hunan Pu Qin. The management of the Company has made repeated requests to Hunan Pu Qin during the audit for the year ended 31 December 2021, but the Company was unable to obtain the same from Hunan Pu Qin due to the Company's minority interest in Hunan Pu Qin. As a result, the Auditor was of the view that they were unable to obtain sufficient appropriate audit evidence to assess the valuation of this investment as at 31 December 2021 and 2020. The Auditor considered that the referenced share transaction was completed for over 1 year and it may not an appropriate estimate for the fair value of the investment in Hunan Pu Qin as at 31 December 2021.

The Company considered that it has made its best endeavours to provide all the available information and documents for the audit purpose. Nevertheless, the Company was unable to provide all the information and documents requested by the Auditor. In order to address the issues, the Company has formulated a plan to remove the audit modifications and will work closely with its Auditor on this matter.

The audit committee's view towards the audit modifications in relation to the valuation of the investment in Hunan Pu Qin

On 30 June 2022, the audit committee of the Company had a meeting, at which the auditor's report was presented to the members of the audit committee by the Auditor. The audit committee reviewed the audit modifications and understood that the Auditor was unable to obtain all the requested audit evidence in relation to the audit work. The audit committee also reviewed and understood the position of the management and they advised that the Company should come up with a plan to remove the audit modifications in the next auditor's report. In this regard, the audit committee agreed with the view of the management's position described above.

The Company's action plan in addressing the audit modification

To address and to remove the audit modifications in relation to the investment in Hunan Pu Qin, the Company has sought to liaise with the management of Hunan Pu Qin and to establish appropriate reporting procedures with Hunan Pu Qin for getting access to the financial information and other relevant documents in a timely and proper manner, including but not limited to the latest management accounts of Hunan Pu Qin for the purpose of the assessment of the fair value. The Company considers that the Company, as a shareholder, has a right to access to the financial information of Hunan Pu Qin and it should not be ignored even though the Company's interest in Hunan Pu Qin was diluted. Upon communication with Hunan Pu Qin, the Company has obtained the latest audited accounts for the year ended 31 December 2021 of Hunan Pu Qin.

Alternatively, the audit modification can also be removed if the investment in Hunan Pu Qin is disposed of before upcoming financial year end. The Company will consider such disposal if a suitable acquirer can be identified.

The Board confirmed that the supplementary information provided and the clarification in this announcement does not affect any other information contained in the 2021 Annual Report and, save as disclosed above, the content of the 2021 Annual Report remains unchanged.

By Order of the Board
China Ecotourism Group Limited
CHAN Tan Na, Donna
Chairperson of the Board

Hong Kong, 20 January 2023

As at the date of this announcement, the Board comprises Ms. CHAN Tan Na, Donna, Mr. WU Jingwei, Mr. DI Ling and Mr. QIU Peiyuan as Executive Directors; and Mr. HUANG Shenglan, Mr. CHAN Ming Fai and Dr. MENG Zhijun as Independent Non-executive Directors.